

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**



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Natalie A. Jaresko
Executive Director

BY ELECTRONIC MAIL

June 4, 2018

Honorable Jorge Navarro Suárez
President of the Government Commission
Puerto Rico House of Representatives
The Capitol
San Juan, Puerto Rico 00902

Dear Representative Navarro Suárez:

The Oversight Board is in receipt of a written request to state what would be the effect on the Fiscal Plan and Budget for the Commonwealth should the Government of Puerto Rico not comply exactly with the understanding reached with the Oversight Board concerning the repeal of Law 80.

To answer your question directly, at a minimum, the Oversight Board would revert to the Fiscal Plan as certified by the Oversight Board on April 19, 2018 (the “April 19 Fiscal Plan”), and would submit a budget to the Governor and Legislature that is consistent with that Fiscal Plan.

Specifically, if the Government of Puerto Rico fails to comply exactly with the understanding reached with the Oversight Board concerning the repeal of Law 80, the Oversight Board will amend the Fiscal Plan and Budget to:

- Eliminate the annual appropriation for the Christmas bonus for public sector employees
- Eliminate the annual appropriation of \$25 million for student scholarships at the University of Puerto Rico
- Eliminate the annual appropriation of \$50 million for economic development initiatives for municipalities
- Eliminate the multiyear fund of \$345 million for various economic development and reform implementation initiatives as requested by the Government of Puerto Rico

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- Maintain the elimination of the Christmas bonus for both public sector and private sector employees as well as the reduction in sick days and paid leave for private sector employees, as required by the labor reform outlined in the April 19 Fiscal Plan to facilitate investment and job creation in Puerto Rico
- Maintain the cuts to the budgets of the Legislature and Judiciary as outlined in the April 19 Fiscal Plan

Nevertheless, the reduced funding for municipalities, the University of Puerto Rico, and economic growth, as well as the elimination of Christmas bonuses, would just be the immediate next step. That is because Puerto Rico currently enjoys a respite from paying its debt service due to the Title III automatic stay and the expectation that we will restructure our debts on a timely basis. However, the automatic stay is temporary, not permanent, and Puerto Rico must demonstrate that it is taking the necessary steps to make a fair and sustainable debt restructuring possible while it benefits from the automatic stay. The most critical step at this juncture is repealing Law 80, so that Puerto Rico can enjoy a growing economy with a stronger tax base for the benefit of the Commonwealth's people, businesses, and creditors. Failure to do so will lead to an untenable situation – continued economic decline, a shrinking tax base, and no realistic path to a debt restructuring to put Title III behind us. Please refer to Exhibit 21 of the Fiscal Plan certified on May 30, 2018 to see the macroeconomic impact of failing to adopt labor reform.

The understanding reached with the Oversight Board concerning the repeal of Law 80 for all employees, present and future, will assist the Oversight Board and Government of Puerto Rico in effectively implementing the Fiscal Plan without having to waste time and resources on costly litigation regarding the implementation and enforcement of certain fiscal and economic initiatives as required by PROMESA.

We trust that this letter adequately answers your question but if not, please do not hesitate to contact us for further information or clarification.

Sincerely,



Natalie A. Jaresko

Andrew G. Biggs
José B. Carrión
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

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